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Wine

Wine and spirits: New bank guarantee requirement limits import growth

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Report Highlights:
Russia's requirement for a full-advanced credit guarantee for payment of customs duty, VAT, and excise duty is limiting the growth of the market. New health-label deadline allows producers and importers of alcoholic beverages to sell the majority of products if produced before February 1, 2007. After August 1, all alcohol products must carry an additional health warning. Russia is considering new regulations on the definitions for natural wine. Russia's demand for high-quality imported wines and spirits is so great that despite these market difficulties, importers report bright prospects with spirits and wine sales rising rapidly.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
[RS]

Trade data

In 2006, the United States (including Puerto Rico) exported wine and spirits to Russia valued at $19.2 million. This is up from $13.6 million in 2005. For 2007, U.S. exports of wines and spirits will likely be up 40-50 percent based on present export pace, and may reach $27 million. Other wine producing countries – Argentina, Chile, France, Germany, Italy, Spain, and Ukraine – also exported more wine to Russia last year. These major exporters saw their imports increase by 80 million liters. Yet Russian wine imports, including sparkling wine, fell from 509 million liters in 2005, to 396 million liters in 2006. The decline may be attributed to bans on imports of Moldavian and Georgian wines. Moldova and Georgia saw their exports decimated by the ban.

The total volume of sales of alcoholic beverages in Russia totaled 13.2 billion liters in 2006, a 6.7 percent increase over the previous year, according to Euromonitor International. Even more notable was the monetary value of those sales: $41.8 billion, up from $32.8 billion in 2005.

Market situation

The wine and spirits market continues to evolve. There is a trend toward consolidation in the industry, with a strengthening of the major players and many minor companies exiting. Importers wait and worry about any number of "surprises" from the state. In the meantime, they continue to work with the most successful brands, and are hesitant to take on new labels. Despite the market difficulties most companies are continuing to grow and expand as noted in the general increase of trade from most countries. Most importers report but they will increase sales in 2007.

The alcoholic beverage market is heavily dependent on the political situation. The current situation is opaque enough that they can hurt producers with requirements on bank guarantees for pre-paid excise taxes. These guarantees soak up their cash very quickly, constraining credit that could have been used for expansion. Liquidity problems are one reason there is a closure of a number of companies and the acquisition of small firms. This trend has been most common in the regions. Leading companies in Moscow and St. Petersburg solidified their positions in all segments of the market.

The overall trend in recent years is the growth in the market for high-quality alcoholic beverages. Even "surprises" from the government has not been able to stop this. The standard of living in Russia is rising and, hence, there is an increasing demand for quality products in all market segments. There is no final decision regarding the import status of Georgian and Moldovan wines, but the outlook is not optimistic. The ban on imports of Moldavian and Georgian wines will create a niche for other countries, according to Euromonitor. Armenia and Azerbaijan, along with Eastern European countries such as Macedonia, are likely candidates for experience a growth in wine exports to Russia. Moldova was previously the primary supplier of wine grape to Russia, and the aforementioned countries are most capable to matching the price and quality of Moldavian wines.

Many importers and distributors are demanding more stringent quality guarantees in their products, particularly with respect to the origin of the grapes. Mid-priced wines remain the most popular. Future marketing efforts will vigorously promote the everyday health benefits of wine as opposed to hard spirits. Exclusive alcohol brands are expected to show strong growth (at least through the next presidential election). Diversification is also evident, as retailers move into importing, and importers explore their retail options. The wine market is growing, but there is still a substantial gap in demand between the major cities and other regions of Russia. There is heightened interest in expensive wines, but this is limited to the major cities. Recently, the Russian Tax Service issued regulations that allow the national distribution of alcohol products, ending Soviet-era requirements. Distribution for alcohol formerly was licensed in every oblast, kray, republic, or administrative region. National distribution is helping importers consolidate supply networks and reach new regions around Russia.

Health Warning Label:

Russian Federal Consumer Rights Protection and Human Health Control Service (Rospotrebnadzor) published a letter (No. 0100/2284-07-32) dated March 6, and titled "On the Deadline for the Sale of Alcoholic Beverages Carrying the Old Health Warning." The letter states that a workshop between the advisory council of Rospotrebnadzor and several wine industry executives took place on March 16, 2007. As a result of the meeting, the period of transition of alcoholic beverages carrying the health warning produced before February 1, 2007, was extended by six months. The new deadline allows producers and importers of alcoholic beverages to sell the majority of products produced before February 1, 2007. Those products that remain unsold after six months must carry an additional health warning in accordance with Order No. 49, dated January 19, 2007 from the Ministry of Healthy and Social Development "On the Approval of the Health Warning on the Packaging of Consumer Units of Alcohol on the Dangers of Using Alcohol."

"Alconews" magazine reports that authorities confiscated six times more illegal, low-quality domestic sprits in 2006. Expressed in liters, the situation looks even more terrifying: the volume of seized spirits increased from 255,000 to 1,981,400 (!) liters. In this connection the RF Ministry of Justice has recently registered another resolution by the chief sanitary officer Gennady Onischenko "On tightening control over production and distribution of alcoholic products".

The resolution, in particular, highlights the results of the Rospotrebnadzor activity to find low-quality alcohol on the domestic market over the past year. In 2006, the Service inspected 33,470 vodka samples for compliance with the standard and technical documents as well as sanitary norms and regulations. According to the resolution, 1,602 (4.8 percent) of samples fail to comply with the standards. The resolution focuses on improving "effectiveness of sanitary and epidemiological tests of alcohol products as well as tightening requirements for issuing sanitary and epidemiological certificates, including those for production and distribution of alcoholic products".

A separate item in the news explains that organizations involved in import, production and distribution of alcoholic products and wine raw materials: they shall take measures on "ensuring quality and safety of products in accordance with the effective standard and technical documents and production control". The Russian chief sanitary officer has appealed to producers and retailers of spirits to improve "their quality and safety". Rospotrebnadzor is requesting sample bottles from importers for testing. For luxury products this is a very bad new law because importers do not want to provide samples of $1000 bottles of wine, whisky or cognac.

Increase of Excise Duties

The government plans to increase taxes on alcohol and tobacco, and has submitted to the State Duma some proposed amendments to the Tax Code. The bill "On Amending Article 193 of Part Two of the Tax Code," sets new rates of excise on petroleum products, gasoline, alcohol, and tobacco. The amended excise tax rates on ethanol would rise from 23.5 RUR to 28.4 RUR by 2010. The rates for alcohol will increase from 163 to 196 RUR per liter. The government expects that the amount of collected excise taxes will rise from 29.255 billion RUR in 2007 to 69.385 billion RUR in 2008.

Bank guarantee

As of January 1, 2007, the excise on alcoholic drinks increased in Russia from a 10 percent excise payment guarantee to 100 percent. Several major wine importers stated their intent to submit the high excise taxes to the court at the Federal Customs Service (FCS). However, a final decision on the transfer of claims to the court has yet to be made. Analysts believe this move to be a tactic designed to attract the attention of the authorities to wine importation problems.

Russian importers are now required to guarantee payment for customs duties, VAT, and excise duty in advance of receiving their customs stamps in the UFAIS system. This sum of credit is 42 percent of the declared customs value of the wine or spirits. This provision ties up the companies' credit with a bank for many months, since it must be paid before a company gets stamps and sends them abroad for producers to stick on bottles prior to export. Then when the products arrive, the importer must pay cash for clearance of the goods. This limits their credit further.

The "first" guarantee covers only collateral value of excise duty, but does not cover the risk of non-delivery of goods from the border to the customs terminal. Federal Customs Service requires another bank guarantee to cover this risk. This can be avoided by using: railway, Russian service carrier, a licensed customs carrier, or customs convoy. This fee proposed to be raised to over 300 euros per container. Importers consider this a sort of another legal way to stick them for even more money on top of everything else they pay.

Definition of Natural Wine:

In the beginning of February, the FCS issued a formal letter explaining the definition of natural wine, according to the newspaper, Gazeta.

The letter says that all semi-sweet and semi-dry wines declared "not natural" will be subject to a duty at the rate of 16 RUR per bottle. Natural wines are taxed at 2 RUR per bottle. Moreover, wine importers must provide a four bottles of each kind of wine each year to the central excise customs laboratory so that officials may verify the naturalness of the imported product. This is in addition to the necessary health certificates.

To be sure to fulfill the requirements of the FCS is quite difficult. Currently, the Russian legislation lacks a clear definition of natural wine: there are minimum of five pieces of legislation propose to choose different definitions.

Deputy FCS head Tatiana Golendeeva, at a weekly meeting in April, gave hope to importers when she said that semi-sweet and semi-dry wines probably would be declared natural.

Importers appear to be in a no-win situation. FCS set the limit at 15 percent alcohol content. Indeed, any company wishing to continue to work in the market will not quarrel with the Customs. The FCS, in turn, is using the situation and in the vacuum is increasing the excise tax.